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**Locational Pricing Assessment – Call for input**  
24 June, 2022

Please find attached Uniper's response to the above consultation.

We agree that solutions need to be found to ensure that the market can be operated in the most efficient manner in future for the benefit of electricity customers. It is worth considering whether more granular locational signals in energy pricing could help in this aim. However, we believe that there are clear risks with adopting a radical change to the market arrangements such as Locational Marginal Pricing and that the potential effects of this on areas such as investment and liquidity need to be assessed carefully.

Our comments on the specific questions raised in the documents are as follows:

**1. The key opportunities associated with introducing more granular locational pricing in GB;**

We understand the rationale that has been put forward by NG ESO for more granular locational pricing in the GB electricity market going forwards. We agree that there are likely to be challenges with balancing the system and managing constraints in various timescales as we move towards a net zero system, and that changes will be required to the market arrangements to facilitate this. Improved locational signals should provide incentives for generation and demand resources to opt to locate and dispatch in the most efficient manner to ensure that constraint costs are minimised.

Locational Marginal Pricing is one way to achieve this in theory. However, at this point we are uncertain how this might be implemented in practice in the GB market, particularly given the various associated ancillary markets and supports schemes which operate within the existing market structure. We would welcome further development and assessment of this as part of Ofgem's ongoing assessment of locational pricing.

**2. The key implementation challenges, risks and mitigations;**

The introduction of Locational Marginal Pricing, potentially coupled with central dispatch, as proposed by NG ESO would represent a fundamental change to the current trading arrangements. Any such changes made to central market arrangements will necessitate similar amendments to the internal processes and systems of market participants, which are presently designed around a single market wide wholesale price and self-dispatch of capacity to meet contractual commitments.



Any new approach to the wholesale market arrangements operated by the ESO also needs to be consistent with trading taking place in different timescales, either bilaterally between parties and on exchanges, plus with any mechanisms and support schemes which may potentially interact and therefore be affected. This will mean creating a significant programme structure to ensure that modifications are developed, assessed and implemented in a coordinated manner across all industry participants, organisations and mechanisms.

A key challenge to market participants is likely to be the increased volatility in prices and revenues (or costs for suppliers and customers) that more granular market prices is expected to cause. This will be difficult to manage operationally and could prove particularly problematic when participants are planning and making investment decisions. At present, locational signals are provided by TNUoS and losses, and these are relatively stable in nature. For instance, TNUoS tends to be most unstable when methodology changes are implemented, which has occurred quite frequently in recent years. Outside of this, it becomes more manageable from a business planning perspective.

The implications for support schemes need to be better understood. For example, one issue the ESO is concerned about is the potential constraint costs caused by the location of renewable generation. Understanding how the CfD arrangements will interact with a more granular energy price is crucial. If the CfD negates or dilutes any signals from locational prices, then a key objective will not be achieved. One alternative approach would be to factor constraints in some manner into future CfD allocations, such as through zonal auctions, while retaining a national price.

Finally, it would be good to understand how operating with zonal or nodal prices, plus central dispatch interacts with trading in different timescales ahead of time, including any issues with promoting liquidity. The analysis that Ofgem undertakes should consider this.

### **3. The proposed approach to modelling zonal and nodal market designs.**

We do not have any specific issues to raise in respect of the analysis that Ofgem is proposing to undertake in conjunction with FTI Consulting. The analysis as set out seems comprehensive in scope, although as we mention in response to question 2, we believe potential effects on liquidity should be explored more explicitly.

Please contact me in the first instance should you wish to discuss this further.

Yours sincerely

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